

INITIATING COVERAGE
Share Data

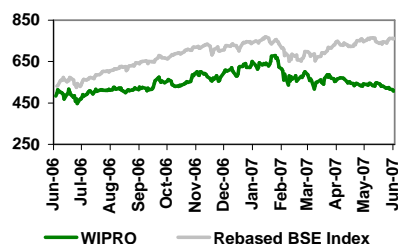
Market Cap	Rs. 734.93 bn
Price	Rs. 509.85
BSE Sensex	14431
Reuters	WIPR.BO
Bloomberg	WPRO.IN
Avg. Volume (52 Week)	0.28 mn
52-Week High/Low	Rs. 678.75 / 447.60
Shares Outstanding	1441.47 mn

Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	23.4	28.6
+/- (%)	15.5%	22.2%
PER (x)	21.7x	17.8x
EV/ Sales (x)	3.8x	3.0x
EV/ EBITDA (x)	16.9x	13.7x

Shareholding Pattern (%)

Promoters	81
FIIs	5
Institutions	2
Public & Others	12

Relative Performance

WIPRO
Buy
Leveraging IT

Wipro is India's one of the largest IT and BPO outsourcing service provider. The company with its seasoned and aggressive management has generated consistent growth both organically and inorganically. Wipro has moved up the value chain in its BPO segment towards higher margin business. The company has diversified its client base and has reduced dependency on few customers. With demand remaining robust and no slowdown witnessed, Wipro with its global delivery model and improved realizations is an ideal buy candidate.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	81,606	106,030	149,982	191,227	240,946	26.7%
EBITDA	20,515	25,375	34,128	42,488	52,330	23.8%
Net Profit	16,161	20,471	28,903	33,385	40,811	18.8%
Margins(%)						
EBITDA	25.1%	23.9%	22.8%	22.2%	21.7%	
NPM	19.8%	19.3%	19.3%	17.5%	16.9%	
Per Share Data (Rs.)						
EPS	11.6	14.6	20.3	23.4	28.6	18.8%
PER (x)	43.8x	34.9x	25.1x	21.7x	17.8x	

- Driven by the increased demand in the IT sector, we anticipate Wipro to report a CAGR of 26.7% in revenues during FY07-09E.
- We expect EBITDA margins to fall by 53.6bps to 22.2% from FY07 levels due to rising rupee and wage inflation.
- At current market price of Rs. 508, the stock trades at a forward PE of 22x FY08E and 18x FY09E.
- We recommend Wipro to be a buy with a 12-month price target of Rs. 598 which results in a FY08E PE multiple of 24.8x.

Investment Rationale

Moving up the value chain in BPO segment

Upside in BPO margins

Wipro entered the BPO segment by acquiring Spectramind in 2002. Initially the BPO business consisted of high volume low margin call centre work. More recently the company has moved into higher margin transaction processing work such as finance & accounting, procurement, HR services which have led to significant improvement in operating margins. Wipro in this segment caters to customers in various industries including Banking & Capital Markets, Insurance, Travel & Hospitality, Hi-Tech Manufacturing, Telecom and Healthcare sectors.

Diversified client base

196 clients added during FY07

Wipro's largest client for FY05, FY06 and FY07 accounted for 4%, 3% and 3% of its Global IT Services and Products revenue, respectively. For the same periods, ten largest clients accounted for 27%, 27% and 25% of its Global IT Services and Products revenues. The above trend reflects the company's move towards reducing dependency on few clients. The Global IT Services and Products division of the company added 196 new clients during FY07 as against 171 clients added during the previous year. Wipro aims to generate at least US \$1 mn in annual revenues from its new clients within twelve months of acquiring them.

Favourable realizations

Realizations improve 1% y-o-y and 1.3% q-o-q

Higher pricing enabled Wipro to improve realizations by 1% during FY07 as against FY06 and by 1.3% quarter-on-quarter. The Company has been successful in getting new customers / renewals at about 3% to 5% better rates.

Continuous recruitment

14,000 campus offers made

During FY07, a total of 14,070 employees were added to meet the growing needs of the company. Moreover, Wipro made 14,000 campus offers. Increased recruitment indicates optimism about the prospects of the company. Wipro's 40% of the work force falls under the 0-3 years of work experience category against 37% a year back. The Company plans to hire more freshers in order to trim down the personnel cost.

Strong demand environment***Strong industry growth***

According to NASSCOM Strategic Review Report 2007, the Indian IT-BPO sector (including domestic and export segment) is growing at approximately 28%. IT-BPO exports are expected to reach US \$60 bn by 2010. India being a premiere destination for offshoring IT services, there are ample opportunities for the company to grow.

Key Risks***Appreciating rupee to effect margins******Depreciating dollar remains a concern***

As revenues from United States contributed approximately 66% of Wipro's Global IT Services and Products during FY07, rupee appreciation remains a matter of concern. Any appreciation in the rupee would result in lower realizations leading to lesser margins. The company entered into forward exchange contracts to minimize the impact of currency fluctuations on revenues. However, sustained rupee appreciation will negatively impact revenue and operating results and thus would be a risk to our ratings.

Acquisitions to be margin dilutive***Softness in demand from telecom equipment vendors***

Due to the consolidation activity among the company's telecom clients, revenues from telecom equipment manufacturers remained constrained. If this slowdown continues beyond few quarters, it could impact Wipro's topline growth.

Acquisitions to add volatility to margins

Wipro is aggressive on the acquisitions which is visible from the six acquisitions made by the company since December 2005. Management indicated that it will continue to look for larger acquisitions (\$100 mn-200 mn) in any geography. While inorganic growth would add to the topline, it is likely to be margin dilutive. Moreover, acquisitions may lead to integration risks on account of cultural differences.

*Increasing attrition
remains a major risk*

Wage inflation and attrition

Salary hikes in January 07 for onsite employees impacted margins by 60 basis points. Any unexpected increase in wages will have a negative impact on margins. Company's attrition rate for 4Q07 increased 1% sequentially and 4% over previous year. With increased opportunities in India, attrition remains a major risk and may have an effect on revenues and profitability.

Outlook

Keeping in view the overall increased IT-BPO spendings, Wipro with its global delivery model is well positioned to encash this opportunity. We believe that Wipro has adopted the right approach of combining BPO capabilities with its IT expertise to provide customers with an integrated solution which shall ease margin pressure and provide revenue synergies.

We expect the revenues to grow at a CAGR of 26.7% during FY07-09E. At current market price of Rs. 508, the stock trades at a forward PE of 22x FY08E and 18x FY09E. We recommend Wipro to be a buy with a 12-month price target of Rs. 598 which results in a PE of 24.8x.

Company Background

*Comprehensive IT
services provider*

Wipro is a global information technology (IT) services company. The Company provides comprehensive IT services, software solutions, IT consulting, business process outsourcing (BPO) services, and research and development services in the areas of hardware and software design. IT Services and Products contributed 90% of the company's total revenues in FY07. Besides IT services, it also has presence in consumer care and lighting. Started as a ground nut crushing unit in 1947, Wipro has grown into a multi business multi location conglomerate. The company's customers are spread across America, Europe, Asia, Australia and the Middle East. The Company is among the top 3 offshore BPO service providers in the world. Wipro is the only Indian company to be ranked among the 'Top 10 Global Outsourcing Providers' in the International Association of Outsourcing Professionals — Fortune Global 100 listings.

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